

Message Text

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C O N F I D E N T I A L STATE 113013

E.O. 11652: GDS

TAGS: EFIN, CI

SUBJECT: CHILE DEBT RESCHEDULING

REFS: (A) PARIS 11616; (B) PARIS 11560

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1. SUMMARY: ON MAY 6 REPRESENTATIVES OF SEVEN CREDITOR COUNTRIES REACHED AD REFERENDUM AGREEMENT TO RESCHEDULE 90 PERCENT OF RENEGOTIABLE PAYMENTS DUE THEM FROM CHILE IN 1975. COUNTRIES INVOLVED, U.S., FRANCE, GERMANY, JAPAN,

SPAIN, CANADA AND SWITZERLAND, ACCOUNT FOR 80 PERCENT OF DEBT DUE TRADITIONAL PARIS CLUB CREDITORS. AGREEMENT AMONG THESE SEVEN FOLLOWED MAY 5-6 MEETING OF ELEVEN COUNTRIES REACHING RESULT LIMITED TO RECOGNITION THAT FOUR (BELGIUM, NETHERLANDS, DENMARK AND SWEDEN) WOULD NOT RESCHEDULE NOW BUT OTHERS WOULD PROCEED. UK AND ITALY DID NOT ATTEND EITHER MEETING. FRENCH CHAIRMAN, NEBOT, HAS CONTACTED GOC MINISTER SAEZ AND ASCERTAINED HIS ACCEPTANCE OF TERMS OFFERED BY THE SEVEN CREDITORS; NEBOT WILL NOW PASS THIS RESPONSE TO CREDITORS, THUS COMPLETING MULTILATERAL NEGOTIATING PROCESS. APART FROM THIS PROCEDURE FOR SECURING GOC CONCURRENCE, AGREED MINUTE FOLLOWS STANDARD PARIS CLUB PATTERN, INCLUDING PROVISION THAT GOC NOT TREAT NON-PARTICIPATING CREDITORS MORE FAVORABLY THAN ANY OF THE SEVEN. TERMS PROVIDE FOR RESCHEDULING OVER NINE AND

ONE-HALF YEARS WITH 30 PERCENT, AS OPPOSED TO 20 PERCENT DUE IN FIRST THREE YEARS; THUS, TERMS ARE SOMEWHAT HARDER THAN 1974 PARIS CLUB RESCHEDULING BUT MORE LIBERAL THAN 1972 (ALLENDE) RESCHEDULING. MUCH OF BOTH MEETINGS CONSUMED BY DISCUSSION OF HUMAN RIGHTS ISSUE. NO SUBSTANTIVE STATEMENT IS MADE ON THIS ISSUE IN THE MINUTE OF EITHER MEETING, BUT CHAIRMAN INFORMED SAEZ OF CONSIDERATIONS PREVENTING FOUR COUNTRIES FROM RESCHEDULING NOW AND OF DISCUSSIONS OF HUMAN RIGHTS AT MEETING OF THE SEVEN (THE MINIMUM REQUIRED UNDER FRG CABINET DECISION ON RESCHEDULING). WHILE OUTCOME WAS SUCCESSFUL FOR CHILE AND ITS CREDITORS, IRREVERSIBLE INJECTION OF POLITICAL FACTORS INTO PARIS CLUB MAKES ITS FUTURE UNCERTAIN AS AN EFFECTIVE INSTRUMENT FOR PROTECTING CREDITOR INTERESTS. END SUMMARY.

2. REPRESENTATIVES OF ELEVEN CREDITOR NATIONS MET MAY 5 AND 6 IN PARIS TO DISCUSS 1975 CHILE DEBT RESCHEDULING. MEETING WAS CALLED AS INFORMAL CREDITORS MEETING TO EXAMINE PROBLEMS INVOLVED IN REACHING RESCHEDULING
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AGREEMENT, BUT IT BECAME APPARENT IN COURSE OF FIRST DAY THAT MULTILATERAL RESCHEDULING COULD BE REACHED.

3. CHAIRMAN NEBOT OPENED FIRST DAY'S MEETING BY STATING THAT PARIS CLUB ENCOUNTERING UNPRECEDENTED SITUATION, SINCE IT HAD PREVIOUSLY REACHED AGREEMENTS ON CHILE RESCHEDULING, BOTH WITH ALLENDE GOVERNMENT IN 1972 AND JUNTA IN 1974. NOW, SOME COUNTRIES REFUSING TO MEET WITH CHILE; ITALY AND THE UK WOULD NOT EVEN ATTEND INFORMAL MEETING. THIS SITUATION PUTTING CREDITOR CLUB CONCEPT IN DIFFICULTY SINCE IT IS PRESENTLY UNDER ATTACK BY SOME LDCS WHO PREFER MEETING CHAIRED BY DEBTOR OR INTERNATIONAL ORGANIZATION. PROBLEM TO BE FACED THUS NOT ONE OF SUBSTANCE, SINCE ALL COUNTRIES ACKNOWLEDGE THAT

CHILE'S BALANCE OF PAYMENTS PROSPECTS AND EXTERNAL DEBT SITUATION CLEARLY INDICATE RESCHEDULING BUT POLITICAL AND PROCEDURAL. THREE POSSIBLE SCENARIOS EXIST:

(A) HOLD NORMAL PARIS CLUB AS LONG AS SOME OF RECALCITRANT CREDITOR COUNTRIES ATTEND. NEBOT SAW THIS AS UNLIKELY.

(B) POLITICAL PRICE EXACTED FROM CHILE AS PRECONDITION TO RESCHEDULING. ALSO UNLIKELY TO OCCUR.

(C) AGREE WITHOUT CHILE PRESENT THAT RESCHEDULING WARRANTED ON TERMS SIMILAR TO 1974, STATING THAT GOVERNMENTS FREE TO REACH BILATERAL AGREEMENTS WITH GOC. OTHERS COULD THEN WAIT UNTIL LATER TIME, PRESUMABLY WHEN SATISFIED OF HUMAN RIGHTS PROGRESS. GOC WOULD

AGREE SEPARATELY TO MULTILATERAL TERMS IF DEEMED ACCEPTABLE.

4. DISCUSSION OF POSITIONS MADE IT APPARENT THAT FOUR COUNTRIES (BELGIUM, DENMARK, NETHERLANDS, SWEDEN) PLUS NORWAY (AN OBSERVER BECAUSE OF ITS DE MINIMUS DEBT LEVEL), WOULD NOT RESCHEDULE BECAUSE OF POLITICAL AND HUMAN RIGHTS CONSIDERATIONS. OVER THE COURSE OF FIRST DAY, PROCEDURES BEGAN TO EMERGE WHICH WOULD PERMIT ALL NATIONS TO ADHERE TO GENERAL DECLARATION RECOGNIZING CHILE'S NEED FOR DEBT RESCHEDULING (BASED ON IMF'S PRESENTATION), AGREEING THAT CONFIDENTIAL

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BEST METHOD FOR THIS WAS MULTILATERAL FORUM, BUT NOTING THAT SOME COUNTRIES WERE UNABLE TO RESCHEDULE AT THIS TIME. THIS AGREEMENT (REFTEL B), DRAFTED MORNING OF MAY 6 WITH PENULTIMATE PARAGRAPH STATING THAT CHAIRMAN WOULD EXPLAIN TO GOC AUTHORITIES MEETING'S CONCLUSIONS AND REASONS WHY SOME COUNTRIES UNABLE TO RESCHEDULE NOW (I.E., HUMAN AND POLITICAL RIGHTS).

5. CONCLUSION OF FIRST AGREEMENT CLEARED WAY FOR MAY 6 AFTERNOON MEETING AMONG THOSE COUNTRIES WILLING TO RESCHEDULE MULTILATERALLY (U.S., FRANCE, FRG, CANADA, SPAIN, JAPAN AND SWITZERLAND), WHO AMONG THEM HOLD 80 PERCENT OF PARIS CLUB DEBT (FYI - UK AND ITALY TOGETHER HAVE 16 PERCENT, AND COUNTRIES WHICH LEFT AFTER FIRST MEETING HOLD FOUR PERCENT). FRG DEL INSTRUCTED BY CABINET TO INCLUDE THREE POINTS: "SYMBOLIC" HARDENING OF TERMS OVER 1974 AGREEMENT, HUMAN RIGHTS STATEMENT, AND LANGUAGE STATING THAT COMPENSATION AGREEMENTS WITH COMPANIES SHOULD LARGELY PARALLEL PARIS CLUB TERMS. SWITZERLAND AND FRANCE, WHICH RECEIVED PERMISSION FROM ELYSEE TO PARTICIPATE IN MULTILATERAL RESCHEDULING ONLY IN AFTERNOON OF MAY 5, WOULD PARTICIPATE ONLY WITH FRG. IN CONTEXT OF U.S.-SUBMITTED DRAFT MINUTE, DISCUSSION CENTERED ON FRG'S POINTS, PLUS

QUESTION OF PROCEDURE FOR DEALING WITH GOC. FOLLOWING IS DESCRIPTION OF MAIN POINTS.

6. TERMS. THERE WAS GENERAL RECOGNITION THAT CHILE'S ECONOMIC SITUATION WOULD NORMALLY REQUIRE TERMS AT LEAST AS GENEROUS AS PREVIOUS YEAR'S. HOWEVER, GOC HAD ALREADY INDICATED TO U.S, FRG AND PERHAPS OTHERS THAT IT COULD LIVE WITH SLIGHTLY HARDER TERMS IF THAT WAS PRICE FOR AGREEMENT. TERMS-ULTIMATELY SET PROVIDE FOR PAYMENT OF 10 PERCENT ON RENEGOTIABLE PAYMENTS IN 1975, ANOTHER 10 PERCENT IN 1976 AND AGAIN IN 1977; REMAINING 70 PERCENT TO BE PAID IN 13 EQUAL SEMI-ANNUAL INSTALLMENTS BEGINNING JANUARY 1, 1978 FOR TOTAL AMORTIZATION PERIOD OF NINE AND ONE-HALF YEARS. THIS IS SLIGHTLY HARDER THAN 1974 (20 PERCENT OVER FIRST THREE YEARS, 10 YEARS TOTAL

AMORTIZATION), BUT MORE LIBERAL THAN TERMS GIVEN ALLENDE GOVERNMENT IN 1972 (30 PERCENT OVER FIRST TWO YEARS, NINE CONFIDENTIAL

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AND ONE-HALF YEARS TOTAL AMORTIZATION). TYPES OF CREDITS COVERED DESCRIBED REFTEL A, ARE SAME AS IN PREVIOUS YEARS. STANDARD MOST FAVORED NATION CLAUSE INCLUDED AND DE MINIMUS CREDITOR LEVEL CHANGED SLIGHTLY AT FRENCH REQUEST FROM DOLLARS ONE MILLION TO SDR ONE MILLION.

7. HUMAN RIGHTS. MUCH OF BOTH MEETINGS CONSUMED BY DISCUSSION OF HUMAN RIGHTS QUESTION. IT WAS CLEAR THAT THERE HAD TO BE SOME RECOGNITION OF PROBLEM IN BOTH DOCUMENTS IN ORDER FOR AGREEMENT TO BE REACHED. ULTIMATE RESULT WAS NON-SUBSTANTIVE STATEMENTS IN BOTH AGREED MINUTES TO EFFECT THAT CHAIRMAN WILL INFORM GOC REPRESENTATIVE OF CONSIDERATION PREVENTING FOUR COUNTRIES FROM RESCHEDULING NOW AND OF DISCUSSIONS OF HUMAN RIGHTS IN MEETING OF SEVEN CREDITORS. INCLUSION OF LATTER POINT WAS MINIMUM REQUIRED BY FRG CABINET DECISION. U.S. STATED THAT WE HAVE VOICED OUR CONCERNS IN APPROPRIATE FORUMS AND CONTINUE TO DO SO, BUT PARIS CLUB IS SUPPOSED TO DEAL SOLELY WITH FINANCIAL AND ECONOMIC MATTERS. SPAIN AND JAPAN OPPOSED STATEMENT OF ANY KIND. SPANISH OPPOSITION TO HUMAN RIGHTS STATEMENT AT CLOSE OF MEETING THREATENED TO PREVENT AGREEMENT, BUT PRESSURE FROM OTHERS FORCED THEM TO CONCEDE. AS EXPECTED, NETHERLANDS LED GROUP WHICH REFUSED TO RESCHEDULE. IT WOULD NOT STATE EXACT PRE-CONDITIONS DEMANDED FOR RESCHEDULING BUT ALLUDED TO RETURN TO DEMOCRATIC POLITICAL SYSTEM, AMONG OTHERS.

8. COMPENSATION AGREEMENTS. FRG AND OTHERS MADE MUCH OF NECESSITY TO INCLUDE SOME LANGUAGE IN RESCHEDULING AGREEMENT NOTING "PARALLELISM" BETWEEN COMPENSATION AGREEMENTS AND DEBT RESCHEDULING TERMS. U.S. OPPOSED THIS AS

OUTSIDE COMPETENCE OF PARIS CLUB AND AS SETTING BAD PRECEDENT IN APPEARING TO ACCEPT CONCEPT THAT A COUNTRY'S ECONOMIC SITUATION CONSTITUTED A QUALIFICATION TO ITS OBLIGATION TO MAKE PROMPT SETTLEMENT OF COMPENSATION. FOR BONN: WE HAVE AGREED TO PRIVATELY PROVIDE SOME INFORMATION ABOUT TERMS TO HELP FRG DELEGATION; THESE WILL BE CABLED SHORTLY.

9. PROCEDURE. GIVEN UNWILLINGNESS OF A NUMBER OF CONFIDENTIAL

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COUNTRIES (INCLUDING FRANCE) TO MEET WITH CHILE FOR

POLITICAL REASONS, NEW PROCEDURE EVOLVED IN COURSE OF MEETING FOR REACHING AGREEMENT WITH CHILE. SEVERAL COUNTRIES (U.S., FRANCE, FRG) WERE GENERALLY AWARE BEFORE MEETING OF TERMS ACCEPTABLE TO GOC; U.S. WAS ALSO AWARE

THAT GOC WOULD ACCEPT PROCEDURE UNDER WHICH IT DID NOT COME FACE TO FACE WITH CREDITORS OUT OF NEED TO ACHIEVE MULTILATERAL RESCHEDULING AGREEMENT AS EARLY AS POSSIBLE. CHAIRMAN NEBOT WAS INSTRUCTED TO PRESENT TO GOC CONCLUSIONS OF BOTH MEETINGS, INCLUDING TERMS AND ATTITUDES ON HUMAN RIGHTS. CHILEAN MINISTER SAEZ, HAS MET WITH NEBOT AND INDICATED ACCEPTANCE OF TERMS. GOC WILL NOW NEGOTIATE BILATERAL AGREEMENTS IN STANDARD FASHION. NORMAL PARIS CLUB AGREEMENTS ARE SIGNED ONLY BY CHAIRMAN AND DEBTOR COUNTRY REPRESENTATIVE; IN ABSENCE OF DEBTOR, HEADS OF DELEGATION OF CREDITOR COUNTRIES SIGNED AGREEMENTS. IN

ALL OTHER RESPECTS, RESCHEDULING AGREEMENT FOLLOWS STANDARD PARIS CLUB FORMAT.

10. COMMENT. MANAGEMENT OF MEETING BY NEBOT WAS IN HIS USUAL HIGHLY PERSONALIZED FASHION INCLUDING THREATS TO DISSOLVE MEETING ON SEVERAL OCCASIONS WHEN AGREEMENT STALLED. OUTCOME COULD HAVE BEEN ACHIEVED IN MORE RAPID MANNER, BUT NEBOT INSISTED ON TAKING IT TO BRINK SEVERAL TIMES BEFORE CONCLUSION CAN BE REACHED. AS STATED ABOVE, FRENCH DID NOT RECEIVE GO-AHEAD FROM ELYSEE UNTIL LATE FIRST DAY, BUT EVEN THEREAFTER NEBOT ATTEMPTED TO EXACT SPECIAL CONCESSIONS FOR FRANCE BECAUSE OF INTERNAL POLITICAL PROBLEMS.

11. FRG GENERALLY HELPFUL, ALTHOUGH OBLIGATED BY CABINET TO MAKE CERTAIN POINTS. JAPAN, WITH LOW-LEVEL DELEGATION HEADED BY LOCAL FINATT, WAS SURPRISINGLY ABLE TO SIGN ACCORD AND WAS SUPPORTIVE OF U.S. POSITION (POSITION SEEMS CURIOUSLY INCONSISTENT WITH GOJ ABSTENTION ON IBRD CHILE LOAN 5/8). CANADA, SPAIN AND SWITZERLAND ALSO SUPPORTED MULTILATERAL AGREEMENT ALONG LINES OF U.S. POSITION.

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12. IN BROADER CONTEXT OF DEBT RESCHEDULING POLICY, IT WAS STRESSED BY NUMBER OF COUNTRIES THAT CREDITOR CLUB CONCEPT IN DIRE TROUBLE AS RESULT OF POLITICAL INTRUSIONS. AT TIME WHEN CLUB CONCEPT UNDER ATTACK BY LDCS WHO URGE THAT AN INTERNATIONAL ORGANIZATION OR DEBTOR CHAIR MEETINGS AND THAT NEW ATTITUDE BE TAKEN IN DEBT RESCHEDULING, ACTIONS BY CERTAIN CREDITORS WHICH BOYCOTTED RESCHEDULING TEND TO BEAR OUT LDC CHARGES. IT IS POSSIBLE, AS NEBOT MAINTAINED, THAT SUCCESSFUL OUTCOME OF MEETING WILL PERMIT SURVIVAL OF PARIS CLUB OR CREDITOR CLUB CONCEPT. HOWEVER, INABILITY OF CLUB AS A WHOLE TO DEAL WITH CHILE AS A NORMAL DEBT-RESCHEDULING CASE, AND FRENCH INSISTENCE ON HANDLING CHILE RESCHEDULING MEETINGS AS A POLITICAL AS WELL AS ECONOMIC ISSUE LEAVE THE FUTURE OF THE CLUB VERY MUCH IN DOUBT. IN THE NEXT CASE, THERE WILL UNDOUBTEDLY BE

POLITICAL PROBLEMS, OTHER THAN HUMAN RIGHTS ISSUES, FOR ONE OR MORE CREDITORS. IF THE GAME IS REORGANIZED AS ONE IN WHICH EVERYONE'S POLITICAL DESIDERATA ARE RELEVANT, THEN THE CLUB PROCESS WILL BECOME BOGGED DOWN IN ALL THE ISSUES THAT MAKE A MULTILATERAL BURDENSARING EXERCISE SO DIFFICULT IN THE FOREIGN ASSISTANCE FIELD. KISSINGER

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